

VZCZCXRO6402
PP RUEHFL RUEHKW RUEHLA RUEHROV RUEHSR
DE RUEHAK #1478/01 0801030
ZNY CCCCC ZZH
P 211030Z MAR 06 ZFR
FM AMEMBASSY ANKARA
TO RUEHC/SECSTATE WASHDC PRIORITY 4107
INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHBS/USEU BRUSSELS
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDOG/DEPT OF COMMERCE WASHDC
RHEHAAA/NSC WASHDC
RHMFISS/HQ USEUCOM VAIHINGEN GE

C O N F I D E N T I A L SECTION 01 OF 02 ANKARA 001478

SIPDIS

PLS ZFR ZFR ZFR ZFR ZFR ZFR THIS MESSAGE (BOTH SECTIONS)
MESSAGE WILL BE RESENT WITH NEW MRN AND MCNS

SIPDIS

USDOC FOR 4212/ITA/MAC/CPD/CRUSNAK
DOE FOR CHARLES WASHINGTON
EUR ALSO FOR MATT BRYZA AND STEVE MANN

E.O. 12958: DECL: 03/19/2016

TAGS: [EPET](#) [ENRG](#) [EINV](#) [PREL](#) [TU](#) [GG](#) [AZ](#)

SUBJECT: TURKEY: PLAYING CHICKEN ON BTC AND CASPIAN GAS

ANKARA 00001478 001.3 OF 002

Classified By: AMBASSADOR ROSS WILSON FOR REASONS 1.4 (B,D)

¶1. (C) Summary: During Ambassador Steve Mann's March 17 meetings in Ankara, Turkish government and BTC officials said they are still aiming for loading the first oil tanker May 27 in Ceyhan, although the target date for an official ceremony has slipped to July. The BTC consortium and BOTAS are at loggerheads about sharing responsibility for funding approximately \$330 million in cost over-runs under the lump sum-turnkey contract awarded to BOTAS for pipeline construction in Turkey. Turkish and U.S. officials stressed the importance of Azerbaijan and Georgia in developing southern corridor east-west natural gas transit. There is interest in exploring links to Kazakhstan and Turkmenistan. End Summary.

Playing Chicken on BTC:

¶2. (C) In a March 17 meeting in Ankara with Ambassadors Wilson and Mann, BTC CEO Michael Townshend reaffirmed the target of first tanker loading at Ceyhan May 27, with an official ceremony the second week of July. Sharing his concerns about BOTAS, capacity to complete the work and lamenting the political reality that the GOT Treasury guarantee was not actionable, Townshend stressed that the BTC consortium could not accept full responsibility for delays and cost over-runs. The BTC CEO shared what he described as a final and generous offer to the Turkish Minister of Energy to accept limited responsibility and fund a portion of cost over-runs. Townshend felt this would expedite completion in a win-win way and avoid a messy arbitration where the GOT would win a less advantageous result. Out of about \$330 million in disputed claims, BTC's final offer calls for BOTAS to cover \$80 million. In addition, the BTC consortium would provide other measures to assist cash flow at BOTAS and its pipeline operating arm (BIL) BOTAS International).

¶3. (C) Ambassador Wilson agreed that arbitration would not be a productive path, noting the negative signals this would create for building links to Kazakhstan for BTC and for improving Turkey's investment environment when Turkey aims to seed \$126 billion in energy investment, including moving

forward on ambitious plans for a new nuclear power program and catalyzing Ceyhan as a regional energy hub.

Natural Gas From Azerbaijan and Beyond

¶4. (C) Townshend also reported that the follow-on South Caucasus Pipeline for Shah Deniz natural gas is remarkably proceeding on schedule for the end of 2006. He expects delays in BOTAS achieving connection to the Turkish grid at Erzurum. Townshend noted that BOTAS had asked BTC if it could secure a natural gas compressor, critical for completion of the connection) and not at all easy to procure on short notice.

¶5. (C) In a separate March 17 meeting, Mann and MFA officials discussed Georgia,s request for additional and earlier gas from the SCP. Enegy DDG Mithat Rende criticized Georgia,s arbitrary increase in projected annual demand from 1.2 BCM to 3.5 BCM, based on inflated rosy projections for domestic growth and a chemical fertilizer plant. He and Mann agreed that the bottom line was that Georgia would have to pay a market rate for gas) whether from Turkey or from Russia. Rende articulated Turkey,s oft-repeated position that Shah Deniz gas offered Turkey diversification, re-export rights, and advantageous pricing.

¶6. (C) These issues were also discussed in separate meetings March 16 at the MFA with Deputy Under Secretary Uzumcu and DDG Rende that also included A/S Fried. Fried described the current focus on both Azerbaijan and Georgia as "huge". Seldom, he said, had he seen the Europeans react with such alacrity as they had after the Russian gas cut-off to Ukraine. Suddenly they were serious about diversification of energy supplies. He noted that EB A/S Tony Wayne would give the definitive USG policy statement at a March 17 NATO energy meeting. Fried and Mann had told President Aliyev that, while the U.S. was offering no final endorsements, we supported the notion of at least exploring Trans Caspian gas,

ANKARA 00001478 002.2 OF 002

whether from Turkmenistan or Kazakhstan. Such gas would run through Azerbaijan and Georgia and, if there is an N-K settlement, perhaps through Armenia as well. The Russians are not happy, but were embarrassed at the reaction to the gas cut-off. They still stand to earn plenty. What is needed is competition, not the monopoly that Gazprom currently enjoys. Nazarbayev may not be a democrat, for example, but he can add up the difference between \$10 (from Gazprom) and \$110 (from the free market) per BTU. Aliyev is very aware of the issue. We hope, Fried said, that Shah Deniz moves ahead.

¶7. (C) On BTC, Fried and Mann said the Azeris and others had expressed serious concerns about apparent BOTAS-related construction delays in Turkey. Tuygan, who seemed surprised, explained that the oil had come as far as Erzurum and the first tanker would be filled by late May. Turkey, too, was interested in energy diversification, and wanted to serve as a transit hub for oil and gas. Of course the Caspian region was very important, but there were possibilities for Egyptian gas as well. On Caspian gas, we ought to work together, and everyone should have a chance to compete. MFA, Tuygan noted, had just appointed Ambassador Mithat Balkan as its energy coordinator. Fried agreed on the need for competition - a Gazprom monopoly means a lack of investment. Without Gazprom reform, fueled by competition, there will be insufficient investment in the Siberians fields.

EMBASSY COMMENT

¶8. (C) It seems reasonable for BTC not to accept BOTAS, position that all the delays and over-runs are due to &scope

changes⁸ by BTC and therefore not attributable to BOTAS, mismanagement of the fixed price contract and choice of inexperienced sub-contractors. However, the Consortium to date has loaned money to BOTAS to expedite completion. There is a danger that Turkey could play this face-off in a ham-handed way and continue to force a game of chicken that could lead to arbitration. But, BTC is a western company coalition (which also includes state oil company TPAO). The consequences of lost transit fees (\$10 million per month) and arbitration could be grave from a financial and investment perspective.

¶9. (C) BTC's problems with BOTAS come in the context of various reports that BOTAS' financial and management capacity is under more and more strain. The company has no clear leadership or support from senior government officials, and has limped along for the past x years under a series of ineffectual acting directors. The company is under threat from a variety of allegations and investigations into corruption and mismanagement in tendering and project implementation. This contributes to an environment where there is reluctance to sign a signature or make important decisions at BOTAS, as well as at the Ministry, which is a key impediment for BTC gaining a timely response to its reasonable offer. Longer term, weak capacity at BOTAS is an impediment to Turkey's grand plans for regional gas transit to Europe.

¶10. (U) Steve Mann cleared this cable.

Visit Ankara's Classified Web Site at
<http://www.state.sgov.gov/p/eur/ankara/>

WILSON